



Our Ref: SM/65/4(57)V1:#3046249  
Enquiries: Andrew Everett  
Telephone: (08) 9424 1836  
Facsimile: (08) 9424 1818

8 February 2007

Mr Robert Pullella  
Executive Director Competition, Markets and Electricity  
Economic Regulation Authority  
PO Box 8469  
Perth Business Centre  
**PERTH WA 6849**

**VIA EMAIL: [public\\_consultation@era.wa.gov.au](mailto:public_consultation@era.wa.gov.au)**

Dear Robert

**CALL FOR SUBMISSIONS ON MATTERS RELATING TO WESTERN POWER'S  
REVISED PROPOSED ACCESS ARRANGEMENT ('RPAA') FOR THE SOUTH  
WEST INTERCONNECTED NETWORK ('SWIN')**

Thank you for the opportunity to comment on the three related matters, namely:

- reductions in contracted capacity;
- treatment of capital contributions; and
- headworks charges.

**Reductions in Contracted Capacity**

I note that the Authority invites comment specifically on the Parsons Brinckerhoff Associates (**'PBA'**) review of Western Power's proposed revision to the RPAA that would allow it to unilaterally determine to reduce a network user's contracted capacity at a connection point.

Verve Energy strongly concurs with PBA's findings that Western Power should not have a right to unilaterally decrease contracted capacity. Fundamentally, the requested right is not consistent with the Western Australian *Electricity Networks Access Code 2004* (**'Code'**) and should therefore be rejected.

PBA is correct in recognising that "...the bilateral contract approach taken in the Wholesale Electricity Market makes it an imperative for Generators to hold a firm connection point contracted capacity."

Indeed it is Verve Energy's view that ongoing guarantee of firm contracted capacity is essential to ensure that investment in new generation capacity is not stifled. Proponents may have difficulty obtaining project finance if there is not the guarantee of firm contracted capacity for the lifetime of a project.

Verve Energy certainly agrees with the notion, postulated in the Authority's discussion of the matter in its Notice calling for submissions, that such a unilateral right could unreasonably constrain network users in managing contracts for network services. It is entirely reasonable that a network user may wish to retain unused contracted capacity in support of potential future development opportunities.

It should be remembered that a network user, in addition to ongoing annual network access charges, would invariably have also made a significant capital contribution to secure access. The contracted capacity therefore has value to the user which should not be subject to unilateral removal.

Another salient point made by PBA, which Verve Energy strongly supports, is that it should not be the role of the network operator to concern itself with policing anti-competitive behaviour. It is clearly the role of the regulatory authority to administer compliance with the relevant legislation and correctly determine, and appropriately deal with, parties that are acting to hinder or prevent network access.

It is important to emphasise however that it could be argued that a party holding unutilised contracted capacity is not strictly hindering or preventing access. The network operator is always capable of augmenting the network, at a cost, to facilitate a new user. The more appropriate regulatory enquiry is whether the party holding access is unreasonably contributing to inefficient investment in network capacity. Any such enquiry should be tempered however by the acknowledgement that timely and appropriate network augmentation is, in the long run, beneficial.

Notwithstanding Verve Energy's strong objection to unilateral removal of contracted capacity, it is mindful of facilitating and supporting economically efficient operation and use of the network. To that end, Verve Energy would be supportive of a proposal that suitably enables users to temporarily 'release' contracted capacity, to another user with immediate need, on the guarantee that the released contracted capacity can be recovered on, say, two years notice. Clearly, the new user would then be required to make any capital contribution necessary to facilitate the associated network augmentation. The effect of this arrangement would be to ensure economically efficient investment by appropriately delaying the required network augmentation, while not diminishing the user's future development options.

PBA has correctly identified that the 'bare transfer' arrangement contemplated in the Code, and established in the network operator's proposed Electricity Transfer Access Contract, is the ideal mechanism for facilitating that economically efficient investment.

### **Treatment of Capital Contributions**

After review of Appendix 3 of the Revised Proposed Access Arrangement - Capital Contributions Policy and associated documentation i.e. Appendix 8 – Price Control Explanatory notes, it is Verve Energy's view that the potential effect of the proposed treatment of Capital Contributions on efficient investments in the SWIN is minimal.



The Authority's comments in the associated Notice calling for submissions on this matter state: "The reduction in revenues in the year in which the capital contribution is made may affect Western Power's financial capability to undertake the new facilities investment and, hence, Western Power's incentive to expand the SWIN in these circumstances". It is Verve Energy's opinion that this statement may not take into account the Capital Contributions Adjustment Mechanism ('**CCAM**') applied by Western Power, which reconciles the difference between forecast and actual capital contributions within an access period, **at the end of the period** and allows for the 'smearing' of the adjusted amount (positive or negative) over the next access period.

This being the case, the impact on the financial capability of Western Power of an adjustment applied in this manner should be negligible. The impact would be reduced even further should the agreed access period be increased from three to five years.

### **Headworks Charges**

Verve Energy supports the proposal by the Office of Energy. It is a sensible solution that should help to resolve the ongoing difficulty with providing appropriate network access capacity, at a reasonable cost, for new users at the fringes of the SWIN.

I would like to take the opportunity however to highlight that, apart from network extensions necessary to connect new users that are geographically separated from the network connection point, network augmentation, to meet a new or growing demand for example, may not always be the most cost-effective solution. In accordance with the Wholesale Electricity Market Rules it is incumbent on the network operator, prior to committing to a major network augmentation, to appropriately consider alternatives. Suitable new embedded-generation solutions have the potential, in many circumstances, to enhance economically efficient investment by delaying network augmentation expenditure.

Thank you again for the opportunity to comment on these important issues. Should you wish, I am happy to discuss with you any aspect of Verve Energy's submission

Yours sincerely

**ANDREW EVERETT**  
**MANAGER REGULATION**